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LAOS: The deadlock between Prime Minister Souvanna and his right wing continues to delay a settlement. [REDACTED] five rightist ministers threatened to resign if Souvanna signed the draft protocol implementing the Lao agreement of 20 February. The rightists presented a substitute draft, based on Lao Army objections, to the existing protocol. Souvanna agreed to present their document to the Communists, but emphasized that he was reserving the option of signing the agreement already worked out between the two sides.

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Further significant concessions from the Communists are unlikely. Their senior negotiator, Phoumi Vongvichit, is planning to return to Sam Neua if a settlement is not reached next week. Souvanna, therefore, may now be forced to make a choice between decisive action to break the impasse or a suspension or breakdown of negotiations. Souvanna, who returned from the royal capital of Luang Prabang on 29 August, appears to believe he has the support of the King for any course of action he adopts. [REDACTED]

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CHILE: Caution and maneuver by the principal actors have again eased the situation. [REDACTED]

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[REDACTED] The government and the Christian Democrats are negotiating again, and some of the strikes have ended.

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Meanwhile, key cabinet ministers are showing unaccustomed reasonableness. [REDACTED]

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[REDACTED] the Christian Democrats have agreed to reopen a dialogue with the government. While many provincial shopkeepers remain on strike, Communist Economy Minister Cademartori has convinced their Santiago colleagues to open and has promised to consider their demands. Transport Minister General Magliochetti has resumed talks with striking teachers, and Socialist Defense Minister Letelier has assured a congressional committee that his legal responsibility outweighs his commitment to his party's policy.

This breather comes in time for Allende to celebrate the third anniversary of his election on 4 September. [REDACTED]

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CHINA: Chou En-lai's political report to the Tenth Party Congress reaffirmed Peking's post - Cultural Revolution foreign policy. With regard to domestic affairs, the report focused on the Lin Piao affair and glossed over other contentious issues.

The USSR clearly emerged as the main threat to China. In Peking's first official statement in the current heightened polemical exchange between the USSR and China, Chou in the harshest terms to date described the Soviet regime as fascist rather than Communist and in effect read Moscow out of the Communist movement. Although Chou reiterated the now standard Chinese argument that the US and USSR are contending for "hegemony," the Soviets were depicted as expanding their presence in the Mediterranean and the Indian Ocean, while circumstances have compelled US imperialism to "decline."

Chou obviously tried to head off any criticism of Peking's efforts to improve relations with the US by reminding his audience that they should distinguish between "necessary compromises" between revolutionary and imperialist countries and "collusion and compromise" between the US and the USSR. He pointed to plans for the European Security Conference as evidence that the key point of US-Soviet contention was now Europe. Chou cautioned that the US-Soviet detente is temporary and that in the long run the interests of the two powers are incompatible.

The Premier reaffirmed Peking's intention to play a leadership role in international affairs by characterizing the awakening and growth of the Third World as a major event in contemporary international relations. He suggested that China should exploit this situation to form the broadest front possible against the "hegemonism" of the two superpowers.

On the domestic side, Chou announced that the long-overdue National People's Congress (NPC) will be held "soon." The NPC will probably ratify the

decisions made at the party congress, resolve the question of whether there should be a new head of state, and fill top vacancies in the government ministries.

Chou's report contained only bland statements on a number of vexing domestic policy issues, supporting a general impression that the abbreviated congress did not engage in a full discussion of these issues. Among other things, Chou:

--said the economy is "doing well;"

--noted that there have been "many new achievements" in culture, health, technology, science, and education, but failed to elaborate on the policy debate over these issues that waged in the media even as the congress met;

--suggested a continuing role for the revolutionary committees, administrative organs that replaced government bodies during the Cultural Revolution, but were reportedly being phased out prior to the congress;

--asked that party members be willing to accept "higher or lower posts," an apparent reference to several prominent officials rehabilitated earlier this year who have not regained their former positions.

Much of Chou's report dealt with the Lin Piao affair, underlining the correctness of party policy since the ninth congress and linking Lin Piao's revisionism to the Soviet Union. Chou reiterated the official version of the story that Lin Piao had attempted to assassinate Mao in September 1971 and had died in a plane crash in Mongolia in an attempt to flee to Russia after his plot was uncovered. Although Chou called for the continuation of the campaign against Lin and his followers, he offered a note of reassurance that the Lin conspirators were a "tiny" group that was "extremely isolated" from the rest of the party and army.

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JAPAN - SOUTH VIETNAM: There has been some slippage in the timing of the disbursement of Tokyo's promised \$50-million aid package for Saigon. The Foreign Ministry had told the US that the funds--\$30 million in commodity aid loans and a grant of \$20 million for humanitarian assistance--would be disbursed following the recess on 28 September of the Japanese Diet. Tokyo originally planned to act without going to the Diet for approval, because under Japanese law assistance grants can be authorized from government contingency funds when the Diet is not in session. Now, however, because the aid was publicly announced while the Diet was still in session, Prime Minister Tanaka feels obligated to request supplementary budget funds to cover the \$20-million grant when a special Diet session is convened in late November. Although the \$30 million in loans could be authorized immediately, Tanaka, for tactical political reasons, believes he should get Diet approval for the "more urgent" grant aid, primarily refugee assistance, before the loans are disbursed.

The delay is a major disappointment to the Saigon government. The increased supply of commodities from the aid would have helped slow Saigon's spiraling prices, now up some 40 percent since last December. The portion of the grant assistance that would have come in the form of food supplies would also have helped ease a rice shortage projected for this fall.

Saigon, moreover, is having balance-of-payments difficulties. Reserves of gold and foreign exchange are presently about \$130 million, down by \$100 million since the beginning of this year. Import-financing problems are likely to be particularly serious in the last quarter. A French aid agreement for \$10 million in balance-of-payments support is not likely to be signed until late September, and the funds will probably not be disbursed before the end of the year.

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JAPAN - SOUTH KOREA: The kidnaping of South Korean opposition leader Kim Tae-chung three weeks ago is creating domestic political difficulties for the Tanaka government.

Prime Minister Tanaka is caught between popular demands that he take actions to demonstrate Japanese displeasure and the need to protect long-term Japanese political and economic interests in South Korea. The opposition political parties are skillfully exploiting popular nationalistic resentment over the incident and have stalled the government legislative program ever since they returned to the Diet on 23 August after a month-long boycott.

Tokyo is considering calling its ambassador in Seoul home for consultation and has postponed an important ministerial conference with Seoul that was to have been the occasion for announcing several hundred million dollars in development loans for South Korea. This action will have no great immediate affect, however, because the loans would cover a period of years.

Because of Japan's important security, political, and economic interests in South Korea, Tokyo is reluctant to take any step that would further damage the hard won, cordial relationship that has existed between the two countries. The Liberal Democratic leadership may also be concerned by the reaction of its financial backers with interests in Korea and of the party's right wing to any such steps.

The Japanese Government appears determined to maintain the status quo in bilateral relations, but it may be forced to make some gesture to placate public opinion if solid evidence of South Korean Government complicity in the Kim case should be developed.

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PERU-US: President Velasco's threat to seize the US-owned Cerro de Pasco mining company if buy-out negotiations fail is another pressure tactic designed to intimidate the company into lowering its asking price. Cerro had been trying for over a year to sell out before Velasco declared in his Independence Day speech last July that Peruvian take-over of the company had become a high priority objective in the process of "deepening the revolution." Velasco now expects Cerro to be on the agenda when official talks on US investment in Peru resume later this month.

The key question is how the inevitable nationalization will be accomplished, that is, the valuation given the company's assets and the amount and method of compensation. Cerro's prospects for an equitable settlement depend in large part on the dynamics of the on-going struggle between moderate and radical factions of the armed forces hierarchy over general policy direction and an eventual successor to Velasco.

The radicals, led by Energy and Mines Minister Fernandez Maldonado, have been working to minimize the government's valuation of the company and focus attention on debts Cerro allegedly owes Peru. The moderates want to avert a dispute over compensation that might disrupt efforts to attract foreign investment.

The moderates' point of view may be gaining,

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Foreign extraction of the nation's mineral wealth is an emotion-charged issue, and the moderates will be wary of associating themselves too closely with the interests of a US company. With the cabinet almost evenly split along radical-moderate lines and defense of national sovereignty likely to be just as much at issue as the economic consequences of nationalization, prospects for an outcome satisfactory to Cerro are not particularly promising.

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The coming talks are sure to affect the decision, and time may be of the essence. Early next month Peru celebrates two major anniversaries--the military's accession to power on 3 October 1968 and its seizure of the International Petroleum Company six days later--at which time Velasco may want to announce resolution of this issue.

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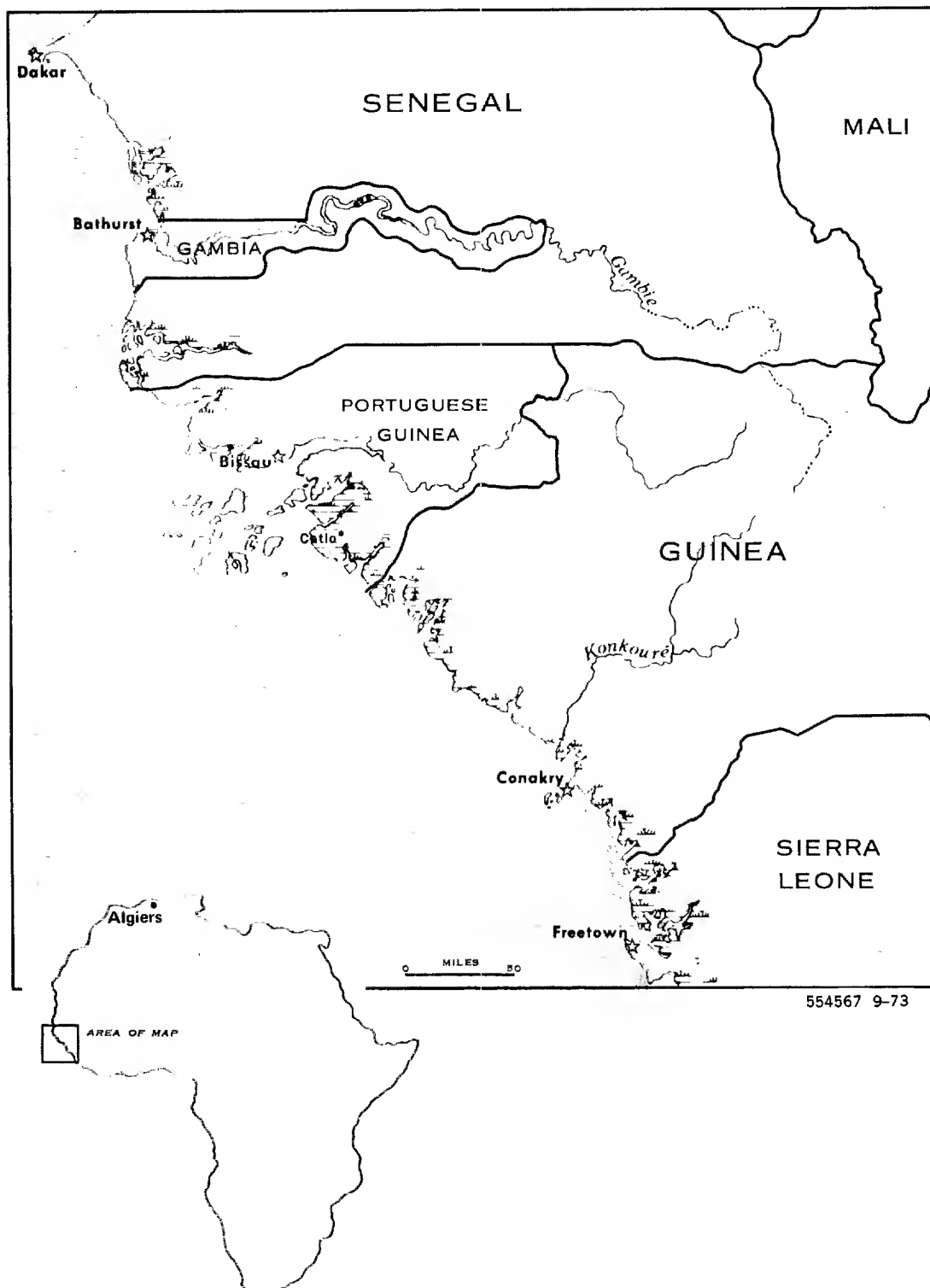
USSR - WEST GERMANY: The Soviets appear to be close to signature of a contract to supply uranium enrichment services to a West German utility company.

A major breakthrough in the lengthy negotiations reportedly occurred recently when the Soviets agreed to a more prominent role for EURATOM in the deal. US officials in Brussels have been advised informally that Moscow will permit EURATOM to concur in the contract and will accept EURATOM safeguards on the nuclear material until the IAEA-EURATOM verification agreement becomes effective. A few technical problems remain, but EURATOM officials expect the contract to be signed in about six weeks.

Under the contract, worth an estimated \$10 million, the Soviets would do the separative work to enrich uranium during the 1970s at 5 percent less than the US price. Moreover, they would guarantee to hold the price below any US quotation through the 1980s. Moscow would gain not only substantial foreign exchange benefits, but also some limited political mileage by exploiting the West's energy crisis and West European dissatisfaction with a recent US increase in its charges for enriching uranium. The Soviets have a small contract with the French and may have recently concluded one with the Italians. The contract with the West Germans, however, is the most ambitious Soviet venture into this Western market.

Further Soviet offers to supply enrichment services may run up against the EC's effort to enhance its own uranium enrichment capabilities. The EC has set up a committee to study this subject. Sweden and Switzerland, both of which have negotiated with the Soviets in recent months, have been invited to participate in the EC deliberations.

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PORTUGUESE GUINEA: The anti-Portuguese rebels may soon proclaim the establishment of an independent government, possibly at the nonaligned conference that opens next week in Algiers.

Leaders of the African Party for the Independence of Portuguese Guinea and the Cape Verde Islands (PAIGC) announced earlier this year that such a declaration would come before the end of 1973. In May, following military successes against the Portuguese, a high-level spokesman indicated the PAIGC would attend the Algiers conference as the representative of an independent state. PAIGC leader Aristides Pereira further announced in mid-August that the necessary preconditions for independence have been fulfilled.

A declaration of independence would almost certainly receive the support not only of African states, but of Communist countries, most nonaligned governments, and some European governments as well. The PAIGC hopes that widespread recognition will put pressure on the US and other Western countries to follow suit. The PAIGC expects that once a declaration is made, other countries will be willing to brand the Portuguese as aggressors, thereby opening the door to increased aid.

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Nonaligned Conference: Representatives of about 70 nations from four continents will attend the conference of self-styled nonaligned states that opens Sunday in Algiers. Some 20 observers and guests, representing various liberation movements as well as governments, will also be present. The participants hope to demonstrate to the great powers that the non-aligned movement remains a significant force in international affairs.

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Finland-USSR: President Kekkonen plans to go to Leningrad tomorrow for talks with Premier Kosygin and to lay the cornerstone for a joint development project near the border. The talks likely will focus on the coming second stage of CSCE and on the vexing issue of Helsinki's proposed free-trade agreement with the EC.

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Sudan: Anti-government demonstrations planned for yesterday in the capital failed to materialize. Muslim Brotherhood student agitators at Khartoum University are calling for a general strike today, but there is no sign that they have rallied support among workers and shopkeepers.

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Ecuador: The military government has been unable to quell serious student disturbances in coastal cities despite forceful countermeasures. The stability of the regime is likely to be threatened if the situation worsens.

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**These items were prepared by CIA without consultation with the Departments of State and Defense.*

NATIONAL INTELLIGENCE ANALYTICAL MEMORANDUM

The United States Intelligence Board on 24 August 1973 approved the following national intelligence analytical memorandum:

NIAM 36.7-73 "Syria's Middle Eastern
Role." [REDACTED]

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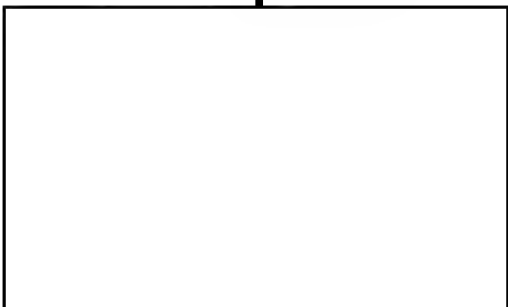
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